

Emerging Domestic Opportunities Fund

Year Ending December 31, 2018

OVERVIEW:

The GMO Emerging Domestic Opportunities Fund's investment objective is total return. The Fund uses fundamental analysis in a structured approach to select countries, sectors, and stocks that we believe are the most likely to benefit from the rising demand for goods and services in emerging markets.

Performance (%)

Net of Fees, Class II, Fair Value, USD	-20.41
Gross of Fees, Class II, Local Close, USD	-19.61
MSCI Emerging Markets ¹	-14.58

Major Performance Drivers

After a good start to 2018, the market took a turn in February that ended up setting the tone for the rest of the year. The market concerns initially centered on the Fed hiking interest rates. Tensions rose further as the trade war went from bark to bite. China, by far the most important economy in emerging markets, was particularly impacted as it was forced to abandon its fledgling drive to bring down leverage in the economy and pivot to an easing mode in order to address the downward pressures arising from the trade war. Arguably, this policy about-face and associated uncertainty has had a larger impact on market sentiment than the direct effects of the tariffs themselves.

The MSCI Emerging Markets Value Index beat the MSCI Emerging Markets Growth Index this year by about 8%, but they were neck and neck until the last few months of the year. Unlike 2016 or 2017 where the gap between styles was consistent and large throughout the period, 2018 was not a clear value or growth year.

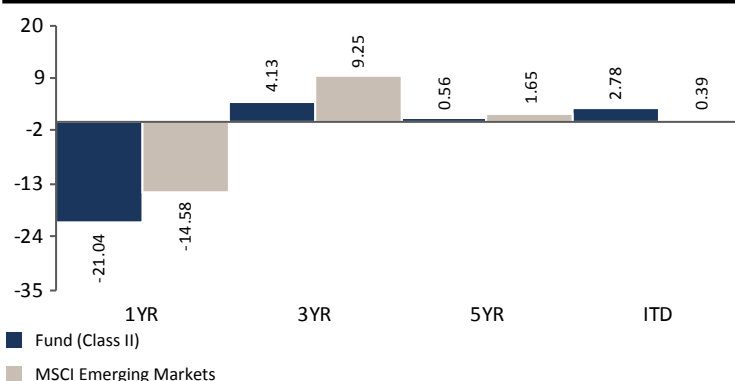
Country returns over the year varied, ranging from a 29.8% leap in Qatar to a -41.4% drop in Turkey. Sector returns driven by domestic demand were more clustered, varying from a -3.8% drop in Utilities to a fall of -32.5% in Consumer Discretionary.

The portfolio fell in 2018 and underperformed the MSCI EM Index in comparison.

The largest driver of this underperformance was our exposure to certain sectors in China, such as Consumer Discretionary and Financials. Weak stock selection in India Industrials and Financials also impacted performance. We made up some ground through our investments in Brazil Industrials and Financials. Given our focus on downside protection, we identified and steered clear of countries with vulnerable macroeconomics, such as Turkey and South Africa.

Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month-end, visit www.gmo.com. Gross Expense Ratio of 1.18% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2018.

Annualized Return (%) as of December 31, 2018



Inception date: 03/24/2011

Chart returns include purchase premiums and redemption fees impact if applicable.

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The Brazilian market began the year well as a ruling went against center-left candidate and former President Lula, weakening his odds of winning the presidency later in the year. A further boost came from a drop in inflation. The market spent the year hoping for the election of its favorite, Bolsonaro, as president, and ended 2018 celebrating his victory. There are hopes that he will address the pension burden and enact pro-market reforms. Our investments in Brazilian Financials and Industrials added to performance.

China had a good start to the year as the economy continued its steady climb. However, in March, the stock market was hit by the ratcheting of tensions on trade. The US announced that it would impose tariffs on up to \$60 billion in annual imports from China. A slowing domestic economy added further pressure. Sentiment kept deteriorating through the year as investors priced in a higher probability of a deep and protracted trade war with the US. The end of the year saw renewed pressure from multiple reports indicating a slowing economy. Industrial output and retail sales grew at the worst pace in years and there were still no signs of a major government stimulus. Our exposure to Chinese Consumer Discretionary and Communication Services hurt performance.

The Indian stock market was hurt at the start of the year by concerns that the upcoming budget would contain a combination of populist and investor unfriendly measures. Later sentiment was pressured by the disclosure of a huge \$2B fraud at one of the country's largest banks. Sentiment improved with a drop in the price of crude oil, a big driver of the country's current account deficit. India also gained from its relatively greater insulation from global trade. September saw the market turn sour after a major non-bank lender defaulted on its debt. This raised concerns on the quality of credit rating agencies as the outstanding debt had been rated very highly just a few weeks back. The end of the year saw a reversal with sentiment improving with a drop in the price of crude oil. Our holdings in Indian Financials and Industrials detracted from performance.

The Mexican stock market was hit by fears that the incoming administration would impose more regulations on sectors such as Financials and be less business friendly in general. Also depressing investors was the fall in the price of crude oil, a key export. Our positions in Mexico Financials negatively impacted performance.

Sentiment in Taiwan was boosted early in 2018 by bullish forecasts from the Technology sector. This was driven by expectations of strong sales of premium devices, such as Apple's iPhone, in the second half of the year. Taiwan's strong and stable macroeconomics also gained favor with investors. Our investments in Taiwan Consumer Staples contributed to performance.

Quarter-ending weights, as a percent of equity, for the position mentioned is: Apple (0.0%).

An investor should consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the fund's prospectus. To obtain a prospectus please visit www.gmo.com. Read the prospectus carefully before investing.

Risks associated with investing in the Fund may include Market Risk - Equities, Management and Operational Risk, Non-U.S. Investment Risk, Liquidity Risk, and Derivatives Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus. Distributor: Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

¹ The MSCI Emerging Markets Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global emerging markets large and mid capitalization stocks. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.